

A circular collage of 15 photographs arranged in a grid-like pattern, showcasing various Boeing products and activities. The images include: a satellite in space; a close-up of a mechanical component; a Boeing 747 on a runway; a Boeing 747 in flight; a Boeing 747 on a tarmac; a Boeing 747 in flight; a Boeing 747 on a tarmac; a Boeing 747 in flight; a Boeing 747 on a tarmac; a Boeing 747 in flight; a Boeing 747 on a tarmac; a Boeing 747 in flight; a Boeing 747 on a tarmac; a Boeing 747 in flight. The collage is set against a background of a grid pattern.





■ Wing and engines of early 707-320 equipped with nine-tube sound suppressors, symbols of company's continuous efforts to reduce aircraft noise, frame 747, world's quietest long-range jetliner



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■ Annual meeting of Boeing stockholders will be held at the offices of the Company, Seattle, Washington on April 24, 1972. Formal notice of the meeting, proxy statement and form of proxy will be sent to stockholders about April 1

HIGHLIGHTS

	1971	1970
Sales	\$3,039,816,000	\$3,677,073,000
Earnings before extraordinary credit . . .	\$ 22,430,000	\$ 22,090,000
Extraordinary credit	\$ 19,780,000	
Net earnings	\$ 42,210,000	\$ 22,090,000
Percent earnings to sales (1971 before extraordinary credit)	0.7%	0.6%
Earnings per average share outstanding:		
Before extraordinary credit	\$1.04	\$1.02
Extraordinary credit	\$.91	
Net earnings	\$1.95	\$1.02
Dividends paid	\$ 8,673,000	\$ 8,673,000
Per share	\$.40	\$.40
Shares outstanding at year end	21,683,102	21,683,102
Stockholders' equity per share	\$38.88	\$37.33
Salaries and wages	\$ 711,031,000	\$ 943,311,000
Average number of employees	56,300	79,100
Depreciation	\$ 89,609,000	\$ 98,372,000
Backlog at year end	\$2,200,672,000	\$3,032,600,000

MESSAGE TO STOCKHOLDERS

Sales in 1971 were \$3.04 billion, a decrease of \$637 million from the record sales reported in 1970. Earnings, before an extraordinary credit resulting from cancellation of the Supersonic Transport program, were \$22.4 million. This compares with 1970 net earnings of \$22.1 million. Earnings per share in 1971, before the extraordinary credit, were \$1.04 or 0.7 per cent of sales, up from \$1.02 and 0.6 per cent in 1970. With the extraordinary credit included, net earnings for 1971 were \$42.2 million, or \$1.95 per share.

In retrospect, 1971 was a memorable twelve months. It saw persistence of the efforts, begun earlier, to insure that our company achieves lowest possible operating cost performance. These included consolidation of facilities throughout our operations to improve efficiency and, especially during the first half, continuation of the manpower reductions that have plagued the aerospace industry during the past several years. We still have adjustments to make. We have excess plant capacity, a continued high level of borrowings and a substantially lower level of business activity than we once enjoyed. This level will prevail for some time and depreciation and other fixed overhead costs will continue to weigh heavily on the overall profitability of the company.

Notwithstanding these difficulties, 1971 saw some noteworthy accomplishments. Significant progress was recorded, for example, in our military business.

Following an excellent test series, the Short Range Attack Missile (SRAM) has entered its production phase. Our performance on Minuteman, which continues to be an important source of business, has been most satisfactory to the government. The Airborne Warning and Control System (AWACS) is also progressing well and has good potential for the future. Last May the Department of Defense selected the company as a sole source to develop the advanced technology components for the Heavy Lift Helicopter (HLH)—the only major new helicopter contract awarded during the year. The Navy has contracted for design work leading to the construction of two missile-carrying hydrofoil boats.

During the year the Air Force announced the selection of our 737 twin-jet for its navigator-training program, marking the first entry of that aircraft into the government inventory.

In space activity, the performance of our equip-



■ William M. Allen, Board Chairman, examines AWACS model held by President T. A. Wilson

ment on the Apollo 15 mission was impressive. The combination of the Lunar Roving Vehicle and the tenth successive flawless launch by our first-stage Saturn booster must rank as a major accomplishment. During the year we were selected to design and build the spacecraft for the Mariner Venus/Mercury (MVM) dual planet mission.

We are vigorously competing for additional government business in a number of fields. We are currently active on the Space Shuttle, and will be seeking a key role in that program, which was given presidential approval in early 1972. We have submitted a proposal to the Air Force for a prototype of a low-cost, lightweight, air superiority fighter, and are preparing an entry in a competition for an airplane designed for short takeoffs and landings. Each of these has an estimated potential of more than \$2 billion. Other programs capable of providing substantial new business include a proposed decoy missile, capable of carrying a warhead and designed to look like a B-52 to defensive radar, and the integration of the airborne electronic equipment on the U.S. Air Force's advanced supersonic bomber. We also intend to bid on a new transport helicopter capable of carrying a combat-equipped infantry squad of at least 11 men and a crew of three.

In the commercial jet transport field the low level of orders reflects the condition of the world's airlines, which in turn relates, to a considerable extent, to the state of domestic and world economy. Last year the balance of these economic factors resulted in the lowest number of aircraft orders and deliveries in several years. We delivered 141 commercial aircraft and received orders for 89, including those ordered by the Air Force for navigator training. We reduced the production rate for the 747 aircraft and



■ President and Mrs. Nixon, on historic mission to China, deplane from Spirit of '76. Boeing jets carried presidential party to meeting with Chinese leaders

anticipate further reductions, despite the impressive record it is compiling in airline service.

Our non-domestic jet transport market continues firm. In 1971, 99 of the 141 deliveries were to foreign airlines, which also placed 54 of the 89 orders. An indication that this firmness is persisting is the order for sixteen 727-200s announced by Iberia Airlines (Spain) at the beginning of 1972.

Significantly, the domestic economy appears to be trending upward. The majority of domestic airlines have reported improved traffic and earnings during the second half of 1971. Although this turnaround is beginning to alleviate the overcapacity situation of most airlines, continued traffic growth must be experienced before substantial new equipment orders can be expected. However, there is an airline recognition of the need to replace older, less economic aircraft with more efficient equipment. It is primarily from this requirement that we have derived most of our recent and current orders.

It is also noteworthy that orders for our 727 and 737 aircraft were on an improving trend during the year. The 727-200, particularly, demonstrated its ability to compete successfully against virtually every

model on the market from two-engine jets to new wide-body equipment. The 737 won all five of the new equipment competitions it entered in the commercial field, in addition to entering the U.S. military inventory. We are convinced that other models of our commercial aircraft could perform military assignments with distinction, and we are continuing to pursue such business here and abroad. An appropriation bill is pending in Congress to fund the production of several 747s which would serve an airborne command post function.

We have joined with an Italian firm to develop a new quiet, short-haul airplane program based on STOL technology, and have discussed other international joint effort possibilities.

The major elements of our business continue to be commercial jet transportation and government defense and space requirements, but we have begun a broadening of our base by undertaking certain activities outside these traditional areas. Measured on the scale of total company operations, these diversification activities do not yet loom very large. We believe, however, they have potential for the future and hope to see perhaps 25 per cent of total sales in such non-traditional product lines within a decade.



Official White House Photograph

Illustrative of these activities is the work of our recently established subsidiary, Boeing Environmental Products, Inc., which has joined with subsidiaries of El Paso Natural Gas Company and Reading and Bates Offshore Drilling Company in a joint venture in the water reclamation field. The joint venture's new evaporative process has applications in the treatment of industrial waste water as a pollution control measure, production of fresh water by desalination and recovery of industrial by-products from waste water. Its business includes an eight-year contract to supply fresh water to a resort in the U.S. Virgin Islands.

Near the end of 1970 we formed the Field Operations and Support Division to market our considerable skill in the maintenance and operation of facilities and equipment. The division has competed successfully for new business, including that of providing support services for Kennedy Space Center; this program is now in its second contract year of a potential five-year period at an annual rate of approximately \$20 million.

We have launched new programs in such fields as community development, communications, transportation, agriculture and waste management; we are

involved in an urban rapid transit rail system program and in an automated personal rapid transit program; we are actively pursuing opportunities in the commercial hydrofoil business.

Despite its cancellation early in 1971, we continue to believe also that an American SST is inevitable and that it can be environmentally and economically acceptable. We hope to play a key role when a new program is undertaken.

In summary, 1971 was a year of intensive activity and significant progress in building for the future. We believe the results merit your confidence for the years ahead.

P. A. Wilson
President

William M. Allen
Chairman of the Board

February 28, 1972



■ E. H. Boullioun
Group Vice President
Commercial Airplanes

COMMERCIAL AIRPLANE GROUP

Last year was a challenging one for the Commercial Airplane Group. Near-term opportunities for the sale of commercial airplanes were adversely affected by the general economic situation, particularly in domestic markets. Competition was severe both in terms of product offerings and pricing. It was necessary to continue to reduce production levels. These problems have required increasing management attention to all elements of cost both within Boeing and among suppliers and subcontractors.

Offsetting immediate problems are several factors which lead to relative optimism about the future. The overall earnings picture for the U.S. airlines began to improve during the year and increases in airline traffic began to alleviate the temporary overcapacity caused by stagnation in air traffic growth and earlier commitments for new aircraft. International travel has continued at a healthy growth rate. The anticipated improvement in the U.S. economy during 1972 is expected to improve the free world airline traffic outlook and to result in reestablishment of a healthy U.S. growth rate.

Although the commercial jet transport market has declined substantially during the past several years, Boeing's share has held at more than half the orders placed. In 1971, 55 percent of the airplanes ordered

were Boeing jetliners. This substantial market penetration is highly encouraging evidence of the competitive excellence of our commercial products and the broad international customer base which has been developed over the years.

New orders for 89 aircraft were received from 33 airlines and the U.S. Air Force: fifty 737s, twenty-nine 727s, seven 707s, and three 747s. The figures include only those orders which have been publicly announced. Of these 89 aircraft, 16 were ordered by U.S. airlines, 19 by the U.S. Air Force and the remaining 54 by foreign carriers.

The 747 has concluded approximately two years of service, carrying more than 17 million passengers. A continuing development program has brought about significant changes in both accommodations and performance. The extension and improvement of the upper-deck lounge and the incorporation of coach main-deck lounges add to the attractiveness of this "queen of the sky" jet transport. Several of these features owe their feasibility to the size and spaciousness of the 747 and thus will assure its superior passenger appeal.

Exclusive of other advantages, the size and capacity for profit of the 747 ultimately should enable it to capture a major share of the market anticipated for new long-range aircraft. The 747 is designed to accommodate the larger load requirements projected





■ Newly completed 747 leaves final assembly line at Everett for preflight testing and painting

for the major routes in the last half of this decade. Thus, both passenger and freighter configurations of the aircraft offer substantially greater earning power on major high density routes.

The 747 has now been formally certified by the FAA as meeting Federal noise requirements which were formulated long after the airplane had been designed. More strict noise regulation for new aircraft had been anticipated early in the 747's design stage with the result that even the earliest models were much more quiet than previous jets. Also, during the year a higher-thrust version of the basic JT9D engine was certified and placed in airline

service. This improved engine should provide the same degree of reliability as the engines used on 707, 727, and 737 commercial jet aircraft.

The first 747 freighter was rolled from the factory in November and is destined to enter service on the North Atlantic with Lufthansa German Airlines in April, 1972. At year end, the freighter, which has a 125-ton payload capacity, was undergoing flight testing leading to certification early in 1972.

By the end of the year, 165 model 747s had been delivered to customers. To date, a total of 207 super-jets has been sold to 29 airlines, representing a broad

■ Proposed relocation of staircase to provide 48-foot unobstructed space forward shows 747's flexibility



customer base for this model. Although orders for only three 747s were received during 1971, the resurgence of air traffic growth, the broad customer base enjoyed by the model, its passenger appeal, its cargo capability and excellent in-service record should result in substantial future orders.

One of the most widely accepted jet transports in the world is the 727. The model accounts for 22 percent of all jet airplanes in free world airline service. Its continued success is attributable largely to the product improvements incorporated, many during the past year. Again, these advances relate to both performance and interior design. The gross weight of the 727 was increased to 191,000 pounds and additional fuel capacity incorporated. The more powerful JT8D-15 engine with "quiet nacelle" treatment was tested and the results accepted by the FAA as meeting aircraft noise rules for new aircraft. The 727 thus becomes the first standard-body jet airliner to meet the new Federal noise standards. The "super-



- Success of 727-200 reflects constant effort to improve both performance and passenger comfort



- Passenger and airline response to 707/727/737 "superjet look" interior has been enthusiastic

jet-look" interior available for the 727 gained increased popularity, due to enhanced passenger appeal and lower maintenance cost. It has been a significant factor in our ability to sell additional 727 airplanes. The basic factors for continued orders are the 727's fleet versatility and its capability to satisfy passenger demand for service frequency. As a direct result of the recent upswing in 727 sales, production rates are being increased to meet delivery requirements.

The 737 twin-jet has earned a reputation for being one of the most reliable air transports in aviation history. During 1971, the 737 gained more uncommitted new airline customers than all other twin-jets and was sold to customers formerly using competitive models. Recent 737 improvements include increased range, better takeoff and landing performance, as well as the new interior options. All this encourages a favorable projection for the future of the twin-jet.

The number of 707s ordered during the year indicates that a continuing, if modest, demand exists for this model for certain airline market segments. New interiors in the commercial configuration have provided improved customer appeal and enable the model to compete with wide-body jets on lesser density international routes. Further, a significant market potential exists for foreign military applications of the 707 in the long-range patrol and submarine warning requirements area.

Additional marketing efforts during the year included the sale of interior kits which give a spacious appearance to 707, 727 and 737 models already in service. By year end, 157 of these new interior kits

had been sold, in addition to new interiors specified on 46 production aircraft.

The Commercial Airplane Group joined with Aeritalia S.p.A. of Italy to work on the application of STOL technology in the development of a quiet, short-haul aircraft. So far the project involves preliminary design work and research needed to refine an aircraft configuration and to determine market potential. Other international joint effort possibilities were explored for other aircraft models. Such international cooperative ventures represent a significant potential for increasing the sales of new models while sharing and thereby reducing financial risks.

Leadership in technology is a major asset of the company. During the year, the Commercial Airplane Group obtained government funded development and research contracts valued at more than \$16 million. These contracts, coupled with substantial company investments, are expected to result in continuing improvements to current products and the development of basic new technology.

In summary, it can be said that for the Commercial Airplane Group the past year has been a turning point in many ways and that its events have established a strong base for the future. The firm world-wide market position retained by the Group during 1971, the significant improvements incorporated in existing models, the continued diversification into new applications, the pursuit of critical research and development work, and especially the expected improvement in U.S. airline traffic, should provide an opportunity for increased commercial aircraft orders.

— E. H. BOULLIOUN

- 747 freighter, scheduled to enter Atlantic service in April, carries more than 125 tons, has swing-up nose for quick, easy front-end loading of freight



■ Performance of Lunar Roving Vehicle on Apollo 15 mission has broadened scope of lunar exploration



■ O. C. Boileau
Group Vice President
Aerospace

AEROSPACE GROUP

The Aerospace Group has the responsibility for a broad spectrum of company activities. These encompass space and defense-related programs, including new military aircraft and military applications of the company's commercial aircraft. It has also initiated and is actively pursuing a large part of the company's diversification efforts. 1971 witnessed progress on all fronts.

In July the U.S. Air Force's Short Range Attack Missile (SRAM) completed a highly successful flight test program. SRAM made 38 test flights, and proved it could hit targets ahead of, to the side of and behind its launching aircraft. It bettered specifications for range, accuracy and radar cross section—the latter especially important in escaping detection by enemy defenses. The supersonic air-to-ground missile is now in production, with first deployment to Strategic Air Command units scheduled for this summer. The missile will be added to the armament of SAC FB-111 and late-model B-52 bombers.

Investment and years of technical accomplishment were rewarded in late November when the U.S. Navy announced it would negotiate a contract for design work leading to the construction of at least two hydrofoils. Design work is under way, and construction of two boats is expected to begin in the third quarter of this year.

The new craft, designated PHM (for Patrol Hydrofoil Missile), will be based on the design of the Tucumcari, a 60-ton hydrofoil delivered to the Navy

in 1968. The new craft will be several times larger than Tucumcari and is expected to be the forerunner of an entire fleet of PHM boats.

The Minuteman program continues well into its second decade as an important part of company military business. This Air Force long range missile system had its beginning in the late 1950s and still is the nation's primary deterrent to nuclear aggression. In December, emplacement of the first 150 advanced Minuteman III missiles for the Air Force was completed, fulfilling the contract \$6 million below the target cost and 45 days ahead of schedule. The \$6 million savings, on an original contract worth \$40 million, was shared with the Air Force. Work is continuing with the Air Force to modernize the Minuteman system to meet changing strategic requirements.

The Boeing twin-jet aircraft will enter the Air Force inventory as the result of a contract for 19 advanced 737s with an option for 10 more to be used to train Air Force student navigators. The company is convinced that its other commercial airplanes can also do a superior job in meeting certain military requirements.

The company has been active in studies of a new lightweight fighter aircraft and a medium short-take-off-and-landing (STOL) transport aircraft.

The company is prime contractor on an Air Force program to develop the Airborne Warning and Control

System (AWACS) for air defense and tactical forces. Rollout and flight of the first of two 707-320B testbed aircraft occurred early in 1972. Each aircraft carries a 30-foot diameter radome assembly, housing an AWACS surveillance radar antenna. During the first phase of the program, two competing radars will be tested, one of which will be selected for recommendation to the Air Force.

Work on the AWACS concept has been under way for more than a decade. In 1970, a \$170 million contract was awarded to Boeing to carry out the first phase of the program. AWACS is one of the first major defense programs to be contracted for under the Department of Defense's "Fly Before Buy" approach. Successful passing of specified milestones is the prerequisite to moving into subsequent phases.

A program which could develop into significant new business for the successful bidder is the proposed Subsonic Cruise Armed Decoy. SCAD is a missile which would be launched by bombers to confuse enemy radar. It also could carry a warhead. Two Air Force contracts to develop preliminary concepts for SCAD have been completed and additional studies are in progress. The company's proposal in the SCAD competition will be submitted in April and an Air Force decision to proceed with the program is expected this year.

A new dimension was added to lunar exploration when the Lunar Roving Vehicle accompanied the Apollo 15 astronauts to the Hadley-Apennine region

of the moon last summer. Aided by the lunar vehicle, Apollo 15 astronauts were able to return more scientific information about the moon than had any previous moon exploration expedition.

"It was a remarkable vehicle," Astronaut Dave Scott said in reporting on Lunar Rover I's performance. Reflecting conservative estimates and the resulting margin of safety provided by its designers, the craft traveled faster and used less power than predicted.

The LRV's success capped an intensive program to design, build, test and deliver the first vehicle in just 17 months from contract go-ahead. Availability of the moon-proven vehicle has allowed mission planners more flexibility in preparing for Apollo 16. A third LRV is in storage awaiting its assignment with Apollo 17, now scheduled for a December 1972 liftoff.

For the tenth time in a row, the first stage of the Saturn V moon rocket responded flawlessly and provided the thrust to hurl the launch vehicle on its way.

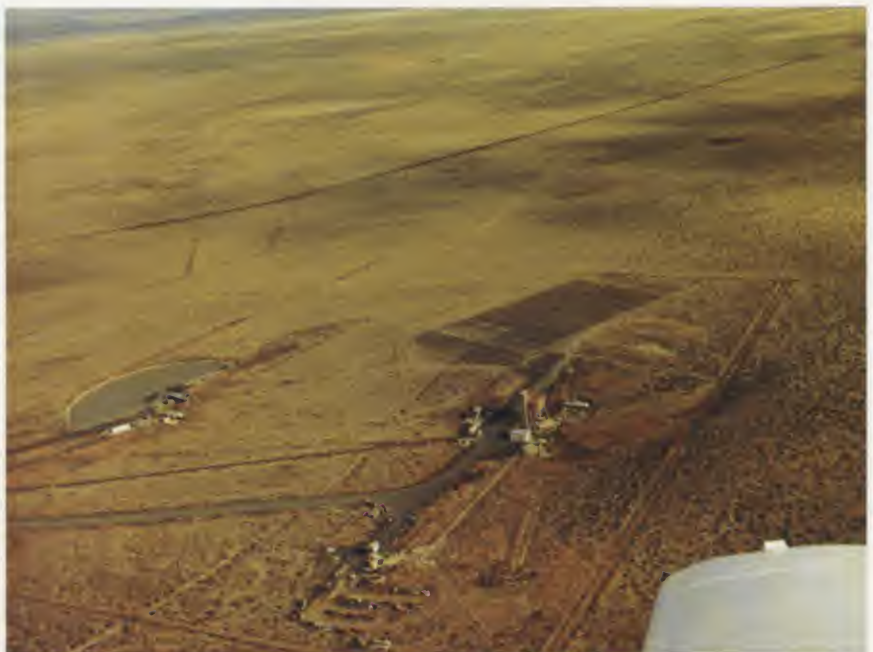
Planetary exploration became part of the Boeing job in April when the Jet Propulsion Laboratory announced the selection of the company to design and build a spacecraft that will be launched in late 1973 on a dual-planet mission to Venus and Mercury.

Part of the National Aeronautics and Space Administration's Mariner series, the spacecraft will return the first close-in television pictures of both planets and gather a variety of scientific data. This

■ This brine concentration plant has 50,000 gallon-per-day capacity, uses new process in the treatment of industrial waste water



■ At Boardman Development site in Oregon work on multiple land use program and studies on recycling of waste products are in progress



will be America's first multi-planet mission and the initial probe to Mercury, the innermost planet of our solar system.

The company is competing for a major role in developing a Space Shuttle, a low-cost space transportation system. The Space Shuttle program received a Presidential go-ahead in early January 1972. Contract awards from NASA to develop and build the Space Shuttle are expected to be made this summer.

Despite these significant accomplishments in traditional business areas, it is likely that 1971 will be remembered as the year of diversification.

The work of Resources Conservation Co., the joint-venture formed by El Paso Natural Gas Company, Reading and Bates, and Boeing, has already been noted.

At its Boardman Development site, 100,000 acres of leased desert land in northeastern Oregon, the company instituted the first phase of a long-range, multiple land use program. Work began on pumping stations to irrigate some 6,000 acres for crop production in 1972. An additional 8,000 acres are scheduled for crop production during 1973 and 1974. Plans also have been studied for use of Boardman in recycling waste products from the Portland, Oregon metropolitan area, and Portland General Electric Co. has designated two alternate locations on the tract as the most promising sites in the mid-Columbia region for the construction of a nuclear power plant.

In another new business area the company was selected in August by the U.S. Department of Transportation to be system manager for a fully automatic personal rapid transit system at Morgantown, West Virginia. The company has direct responsibility for design, installation and test of the total system. The vehicles are being built at the Boeing Space Center near Kent, Washington. First prototype operation at Morgantown is scheduled for late 1972.

Construction of housing units began at one of two Operation Breakthrough sites in King County near Seattle, and ground was prepared at the other for construction of the 58-family unit. Operation Breakthrough is a research program of the U.S. Department of Housing and Urban Development. The company is prototype site developer for the Seattle-area sites.

Boeing Electronic Products, established in 1970, continued its growth by expanding its microelectronics facility, by winning a significant hybrid circuit production contract, and by making the first sales of a new voice scrambler which has important applications in law enforcement work.

— O. C. BOILEAU



■ Located in weapons bay of B-52, "gatling gun" holds eight SRAM missiles, releasing each one at appropriate point in aircraft's flight path

■ On initial takeoff, 707-320B AWACS test-bed aircraft is distinguished by 30-foot diameter radome assembly





VERTOL DIVISION

Highlighting 1971 achievements in the Vertol Division was its selection as sole-source contractor for heavy-lift helicopter (HLH) advanced technology components. Under the present \$76 million contract, it is responsible for the design, development, and test of the critical components such as flight controls, transmissions, rotor systems, and cargo handling systems.

In midyear, the division's diversification activities were climaxed by its selection as systems manager for the urban rapid rail vehicle and systems program of the U.S. Department of Transportation's Urban Mass Transportation Administration. The contract is for technical and management direction for the design, development, and testing of two new types of rapid transit railcars, an improved "state-of-the-art" car that uses existing technology and an advanced concept train car. Two cars of each type will be built under subcontract.

While spare parts, retrofit kits and component overhaul remain a major part of its sales, the division acquired a production extension of Chinook (CH-47C) helicopters from the U.S. Army at a rate of one per month through 1972 and depot maintenance contracts from the Army for Chinook helicopters and the Navy for Sea Knight helicopters. Chinooks were de-

■ H. N. Stuverude
Vice President—General Manager
Vertol Division





■ Company is developing advanced technology components for Heavy Lift Helicopter, shown in artist's concept

livered to a foreign customer for the first time during 1971. The company's Italian licensee, Elicotteri Meridionali, took delivery of five aircraft; the government of Iran purchased three of the five with the other two scheduled for the Italian Army. A formal production order for 12 Chinooks from the Royal Australian Air Force, which selected the craft as its medium-lift helicopter, is also anticipated.

Although deliveries of the CH-46 Sea Knight were concluded early in the year, continuing sales of spare parts and retrofit kits contributed to the division's business base. The division's production license for Model 107 helicopters with Kawasaki Heavy Industries in Japan was continued for an additional ten years.

Under a license agreement with Messerschmitt-Boelkow-Blohm, the single-rotor BO-105, a versatile,

light, twin-engine helicopter, is being marketed. First delivery of the BO-105 to a U.S. commercial operator is scheduled for early 1972.

The Model 347, the large tandem-rotor advanced technology helicopter viewed as a major modification of the Chinooks, has entered phase two of its test program. Just prior to year end, the company-funded 347 was fitted and flown with a tiltable wing in a research extension of the program to explore benefits of the rotor-wing combination.

A major new business objective for the division was established with the decision to enter the Utility Tactical Transport Aircraft System (UTTAS) competition for a single-rotor helicopter prototype capable of operating under the most rugged conditions. It will be a workhorse of Army air mobility. UTTAS is the largest planned helicopter program of this decade.

— H. N. STUVERUDE

■ Designer's conception of rapid transit rail car which employs available technology to make such transportation attractive to the urban traveler



■ Otis H. Smith
Vice President—General Manager
Wichita Division

WICHITA DIVISION

During the year substantial business resulted from the Air Force decision to maintain the B-52/KC-135 Bomber/Tanker system in the Strategic Air Command as a viable weapon system through 1985. The division has received a contract to increase B-52 effectiveness by providing the crew with a flight hazard avoidance capability which enables the aircraft to fly low-level in a "closed curtain" environment.



■ Aircraft undergoing modification at Wichita are given thorough inspection and necessary rework

An Air Force award also has been received for production of kits that will enable 96 late model B-52 bombers to carry the new supersonic Short Range Attack Missile (SRAM). The contract covers a two-year period and contains options for two additional one-year buys that would involve 185 additional B-52G and H models.

A one-year firm contract plus four one-year contract options for KC-135 modification followed a successful competition, and the first tanker arrived last October. For the current fiscal year, 128 of the Strategic Air Command tankers will be processed through the inspection and modification line.

Additional business has been obtained within the Aircraft Modification Branch. The Branch, established in 1969, is a certified FAA repair station with highly skilled and experienced personnel to provide a modification, maintenance and refurbishment service for both commercial and military aircraft. During 1971, contracts for modification of 70 commercial and 171 military airplanes were completed and the future market potential for aircraft modification appears to be most encouraging.

Continued production support to the Commercial Airplane Group for the Model 707, 727, 737 and 747 commercial jetliners also was provided.

Additional research business acquired during the year included an Air Force contract to prove out advanced flight control concepts, and a contract with the Federal Aviation Administration for design, fabrication and test of a 707 JT3D engine installation to demonstrate effectiveness of acoustical treatment.

— OTIS H. SMITH

■ Acoustical rings are used in research program directed at quieter aircraft engine operation



BOEING COMPUTER SERVICES, INC.

When Boeing Computer Services was established as a subsidiary, it was given two major directions: to fulfill the company's internal computing requirements and to market computer services to outside customers.

The first full year of operation as a subsidiary has now been completed with significant progress in both assignments.

The BCS position in the commercial computer services field has been substantially expanded. In fact, commercial sales progress has been better than targeted. In 1971 more than 500 new accounts were added to the BCS customer list. This list represents a spectrum of large and small industries and service organizations throughout the country.

A significant part of the 1971 marketing activities was directed toward government agencies, both local and national. On the local level, computer services were provided to law enforcement agencies and local housing authorities, and general data processing support was given to several state and local government agencies. One national contract is with the Environmental Protection Agency, with services provided for the department of Federal Water Quality and the Refuse Act Permit Office.

During the year BCS marketing and servicing capability was expanded. While retaining its corporate headquarters at Kent, Washington, BCS established a dual headquarters in Dover, New Jersey, to be in the center of the large marketplace in the northeastern metropolitan area. With the opening of seven new sales offices and one data center, a total of fifteen sales offices is now supporting four major geographical districts and the national Government, Educational and Medical (GEM) district headquarters in Washington, D.C.

BCS is becoming recognized as a broad-based company with services not only in consulting, training, computer systems design, programming and data processing, but also in management, operations research, and management of customer computer facilities.

The volume of computing work at Boeing declined during the year in concert with the reduction in its overall business level. Even so, substantial savings through increased efficiency were achieved.

— R. W. THARRINGTON



■ R. W. Tharrington
President,
Boeing Computer Services, Inc.



■ Newly installed computer, part of BCS data processing network, services wide variety of users



FINANCIAL REVIEW

SALES (in millions)

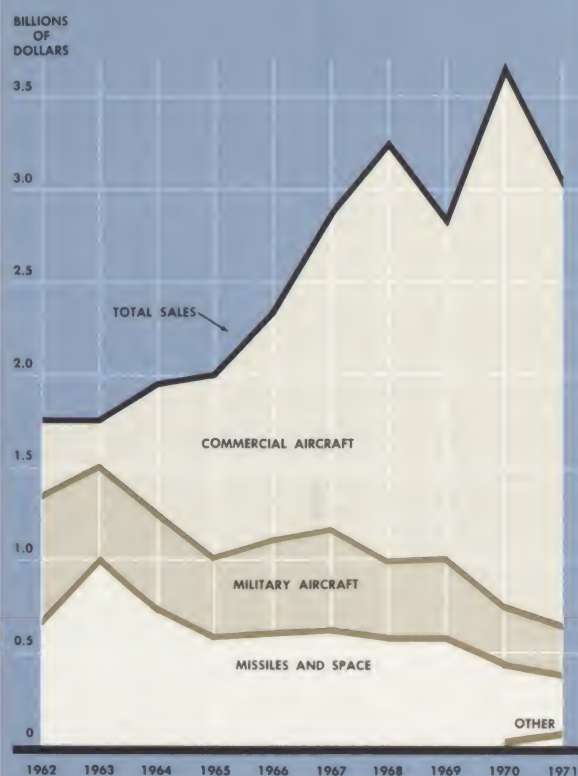
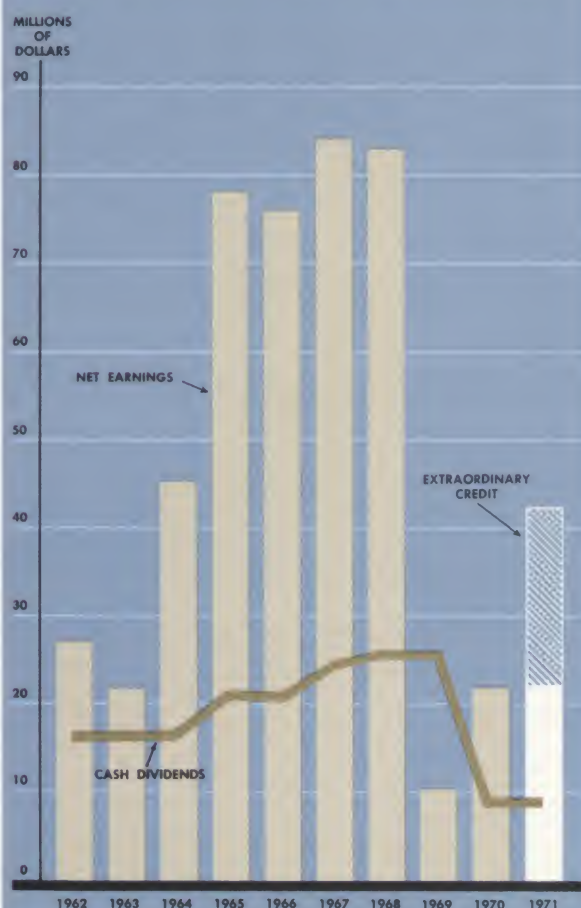
	1971	1970
Commercial Aircraft	\$2,332	\$2,921
Military Aircraft	320	339
Missiles and Space	353	413
Other	35	4
	<u>\$3,040</u>	<u>\$3,677</u>

Total sales of just over three billion dollars in 1971 were \$637 million below the record level reported in the prior year. The reduced sales volume is primarily attributable to lower deliveries of all models of jet transports. Ten 707s, thirty-three 727s, twenty-nine 737s and sixty-nine 747s were delivered in 1971, for a total of one hundred forty-one. This compares with two hundred two deliveries in 1970, which included nineteen 707s, fifty-four 727s, thirty-seven 737s and ninety-two 747s.

Sales to the United States Government in 1971 were some \$50 million below the 1970 level. Minuteman sales of \$163 million were \$11 million higher than in 1970. Sales of \$72 million related to the Apollo/Saturn program were approximately \$44 million below those reported in 1970, reflecting the scheduled slowdown of lunar exploration. Short Range Attack Missile (SRAM) sales of \$88 million in 1971 were \$36 million lower than the previous year as the development contract neared completion and the production contract was just getting underway. These reductions were in large measure offset by sales under the Airborne Warning and Control System (AWACS) program which increased to \$102 million in 1971 from \$31 million the year before. Mariner Venus/Mercury (MVM) contributed \$7 million to 1971 sales. Helicopter sales continued to decline, and at \$179 million in 1971 were \$63 million below the 1970 level. B-52 and KC-135 modification and maintenance sales were slightly lower than the prior year.

Reflecting the company's diversification efforts, non-traditional programs contributed \$35 million to 1971 sales. The newly-formed Field Operations and Support Division generated sales of \$17 million. Boeing Computer Services, in its first year as a subsidiary, had almost \$6 million of sales in addition to providing computer support to all groups and divisions of the company. Sales were also recorded in the areas of surface transportation, hydrofoils, community development and electronic products.

There will be a further substantial reduction in total sales in 1972, principally because of reduced 747 deliveries. Current schedules call for the delivery of approximately six 707s, forty 727s, twenty-

SALES BY PRODUCT CLASS**NET EARNINGS AND CASH DIVIDENDS**

four 737s and thirty-four 747s. The total of 104 compares with 141 deliveries in 1971.

Sales to the United States Government in 1972 should be above 1971 levels. Significant increases are expected in the SRAM and MVM programs. Minuteman sales should continue at about the 1971 level. Current schedules will result in somewhat reduced sales on the Saturn/Apollo, AWACS and Helicopter programs, while sales under B-52/KC-135 modification and maintenance programs will show some increase. Sales under the various non-traditional programs are expected to increase significantly in 1972.

EARNINGS (in millions)

	1971	1970
Before extraordinary credit.....	\$22.4	\$22.1
Extraordinary credit, net of tax	19.8	
Net earnings	<u>\$42.2</u>	<u>\$22.1</u>
Per Share—		
Before extraordinary credit	\$1.04	\$1.02
Extraordinary credit91	
Net earnings	<u>\$1.95</u>	<u>\$1.02</u>

1971 earnings of \$22.4 million or 0.7% of sales before the extraordinary credit resulting from termination of the Supersonic Transport program include operating earnings of \$6.4 million and investment tax credit amortization of \$16 million. This compared with net earnings of \$22.1 million or 0.6% of sales in 1970, which included operating earnings of \$4.8 mil-

lion and investment tax credit amortization of \$17.3 million.

Net earnings of \$42.2 million for 1971 included an extraordinary credit resulting from the termination of the Supersonic Transport program by the United States Government. Under the termination provisions of the contract the company recovered its cost share which had previously been charged against earnings. The recovery of \$19.8 million after income taxes of \$18.3 million was equivalent to \$.91 per share.

The company continued its practice of charging against earnings on an incurred basis research, developmental, and basic engineering and planning costs directly applicable to commercial jet transport programs. Administrative and general expenses incurred in support of commercial jet transport operations also were charged directly against earnings.

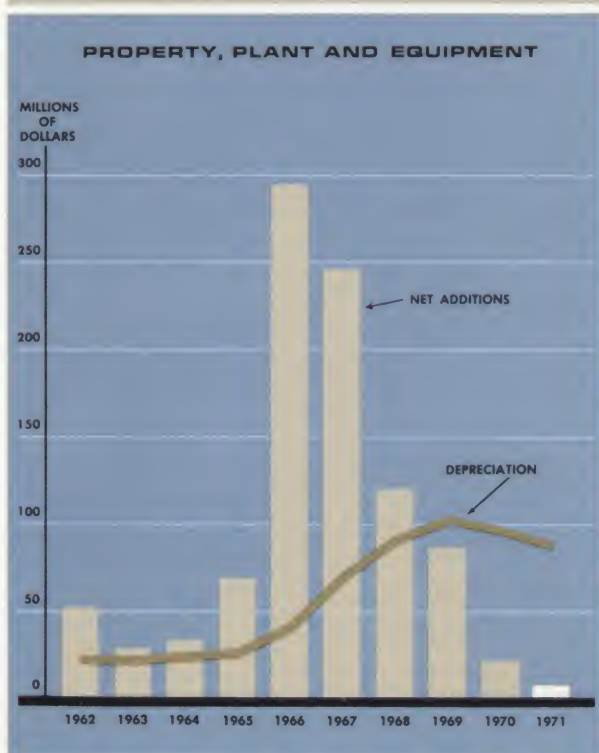
With respect to the 747 commercial jet transport program, both incurred and estimated future production and tooling costs for aircraft delivery costing purposes are being averaged over what management believes to be a conservative market projection of 400 aircraft.

FINANCIAL POSITION

Stockholders' equity in the company totaled \$843 million and working capital totaled \$695 million at the end of 1971. Long term debt aggregated \$651 million and included \$440 million of long-term bank loans, and \$211 million of long-term debentures and notes. Current maturities included in the above amounts were \$124 million. Short-term bank loans at year end totaled \$252 million.

The company's commercial bank credit arrangements, after being modified during the year and early in 1972, are covered by three agreements. The \$209 million revolving credit agreement, in accordance with its terms, became a term loan as of January 1, 1971 payable over a three-year period. \$162 million remained outstanding under this agreement at year end.

The former second and fourth bank credit agreements, with principal amounts of \$209 and \$200 million, respectively, were terminated as of February 15, 1972, at which time a 1972 bank credit agreement, providing for a \$409 million credit, became effective. The 1972 bank credit agreement provides for the banks to continue the line of credit for a fifty-two week period, with the provision that unless either the company or the banks give notice otherwise, such



commitment will be extended on a weekly basis for an additional fifty-two week period. The agreement further provides that if such extensions continue beyond January 1, 1974, the commitments will thereafter be reduced by 8⅓% per quarter with a final termination date of December 31, 1976. Borrowings under the second and fourth bank credit agreements at year end were \$209 million and \$40 million, respectively.

The remaining bank credit agreement covers borrowings by Boeing Financial Corporation, a wholly-owned subsidiary established to assist in financing commercial aircraft. The first part of the agreement is a participation under which the company has borrowed against the cash flow of certain aircraft leases with repayment requirements tied directly to the lease cash flows. Boeing Financial Corporation may repurchase the remaining cash flows at any time and must do so on March 31, 1973 if it has not done so earlier. \$122 million was outstanding under the participation agreement at year end. The second part provides for a series of notes under which \$153 million was outstanding at year end. Quarterly repayments of \$8.2 million are being made against the note balances. An additional \$108 million is available under a revolving credit. The balance outstanding under this credit at December 31, 1972 will be repayable in quarterly installments over a six-year period thereafter.

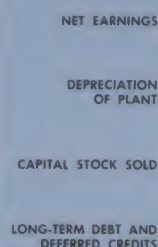
With the aggregate of internally generated funds net of cash dividends, and reduced jet transport financing exceeding the requirements for plant and equipment expenditures and payments on long-term debt, working capital increased by approximately \$38 million during 1971. Allowance for depreciation and net plant retirements substantially exceeded facilities additions, with a resultant decrease of \$83 million in the company's net investment in plant and equipment to \$449 million at year end. Jet transport financing, which includes long-term notes receivable from customer airlines and the depreciated book value of leased aircraft, totaled \$284 million at the end of 1971, a decrease of \$32 million from the previous year end. Five leased aircraft were sold during the year.

BACKLOG (in millions)

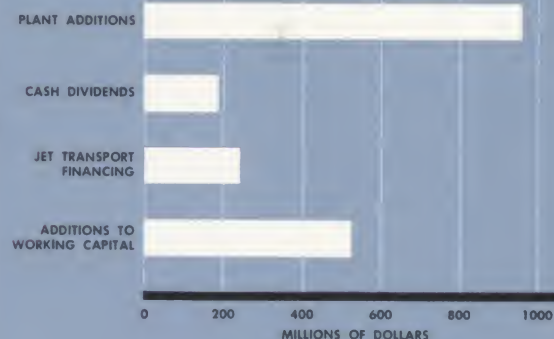
	1971	1970
Commercial Aircraft	\$1,479	\$2,680
Military Aircraft	289	149
Missiles and Space	407	202
Other	26	2
	<u>\$2,201</u>	<u>\$3,033</u>

CHANGES IN FINANCIAL POSITION 1962 - 1971

SOURCES OF FUNDS



USES OF FUNDS



Total unfilled order backlog declined a little more than \$800 million during 1971.

Deliveries of commercial aircraft in 1971 substantially in excess of new orders received caused the commercial aircraft backlog to decline approximately \$1.2 billion.

The backlog of unfilled government orders, however, reversed the trend of the past several years and increased substantially during 1971. Both the military aircraft and the missiles and space backlogs were approximately double the levels at the end of 1970. If recognition were given to unfunded amounts believed to be firmly established in Department of Defense and NASA procurement plans, unfilled orders would be significantly increased.

TEN YEAR COMPARATIVE FINANCIAL DATA

Dollars (other than per share amounts) in millions

SALES, EARNINGS AND DIVIDENDS

	SALES	EARNINGS				CASH DIVI- DENDS	PER SHARE DATA			
		BEFORE EXTRA- ORDINARY ITEMS	% OF SALES	EXTRA- ORDINARY ITEMS	NET EARNINGS		EARNINGS BEFORE EXTRA- ORDINARY ITEMS	EXTRA- ORDINARY ITEMS	NET EARNINGS	CASH DIVIDENDS
1971	\$3,040	\$22.4	0.7	\$19.8*	\$42.2	\$ 8.7	\$1.04	\$.91	\$1.95	\$.40
1970	3,677	22.1	0.6	—	22.1	8.7	1.02	—	1.02	.40
1969	2,835	10.2	0.4	—	10.2	26.0	.47	—	.47	1.20
1968	3,274	83.0	2.5	—	83.0	26.0	3.84	—	3.84	1.20
1967	2,880	83.9	2.9	—	83.9	24.6	4.10	—	4.10	1.20
1966	2,357	76.1	3.2	—	76.1	20.2	4.13	—	4.13	1.10
1965	2,023	78.3	3.9	—	78.3	20.3	4.84	—	4.84	1.25
1964	1,969	45.3	2.3	—	45.3	16.0	2.82	—	2.82	1.00
1963	1,771	21.7	1.2	—	21.7	16.0	1.35	—	1.35	1.00
1962	1,769	27.2	1.5	—	27.2	16.0	1.70	—	1.70	1.00

FINANCIAL POSITION DATA

	WORKING CAPITAL	LONG- TERM NOTES	LEASED AIRCRAFT	PLANT AND EQUIPMENT		LONG-TERM DEBT AND DEFERRED CREDITS	STOCKHOLDERS' EQUITY	
				AT COST	NET		AMOUNT	PER SHARE
1971	\$695	\$248	\$ 36	\$1,077	\$449	\$589	\$843	\$38.88
1970	657	259	57	1,104	532	700	809	37.33
1969	610	228	71	1,106	609	726	796	36.71
1968	467	208	90	1,032	628	587	810	37.43
1967	358	249	114	915	601	574	752	34.80
1966	434	124	86	672	426	513	564	28.91
1965	266	20	14	380	172	104	372	22.70
1964	255	1	29	315	130	113	306	19.06
1963	245	9	17	285	121	117	276	17.24
1962	197	13	10	261	115	66	270	16.89

All per share data for prior years adjusted to reflect two-for-one stock split in 1966.
Earnings per share based on the average number of shares outstanding during each year.

*Recovery of cost share resulting from SST cancellation, net of Federal income taxes.

PRINCIPAL SOURCES AND USES OF FUNDS

SOURCES				USES				
NET EARNINGS	DEPRECIATION OF PLANT	CAPITAL STOCK SOLD	LONG-TERM DEBT AND DEFERRED CREDITS	CASH DIVIDENDS	NET ADDITIONS TO PLANT	INCREASED AIRCRAFT FINANCING	INCREASED WORKING CAPITAL	
\$42.2	\$ 89.6	\$ —	(\$110.8)	\$ 8.7	\$ 6.4	(\$ 32.3)	\$ 38.2	1971
22.1	98.4	—	(26.6)	8.7	21.3	17.7	46.2	1970
10.2	105.3	1.4	139.7	26.0	86.9	0.6	143.5	1969
83.0	93.8	1.8	12.2	26.0	120.2	(65.2)	108.7	1968
83.9	72.3	128.6	62.3	24.6	246.5	153.0	(76.0)	1967
76.1	40.2	135.9	408.4	20.2	294.6	176.2	167.5	1966
78.3	25.5	7.3	(8.7)	20.3	67.8	3.7	11.3	1965
45.3	24.7	0.8	(4.1)	16.0	33.6	4.5	9.6	1964
21.7	21.6	0.7	51.3	16.0	28.2	3.1	48.2	1963
27.2	21.0	0.3	1.0	16.0	50.1	(34.7)	19.0	1962

GENERAL INFORMATION

SHARES OUTSTANDING	BACKLOG	FLOOR AREA (In Million Square Feet)			EMPLOYEES		
		BOEING OWNED	LEASED	GOV'T OWNED	AVERAGE NUMBER	SALARIES AND WAGES	
21,683,102	\$2,201	24.6	1.6	7.9	56,300	\$ 711	1971
21,683,102	3,033	25.0	2.3	8.0	79,100	943	1970
21,683,102	5,183	25.1	3.8	10.4	120,500	1,322	1969
21,647,363	5,176	24.7	4.1	10.7	142,400	1,411	1968
21,597,356	5,893	22.9	4.3	10.7	142,700	1,305	1967
19,496,519	5,283	19.9	3.6	10.6	128,500	1,148	1966
16,374,280	3,148	12.5	2.5	11.4	93,400	813	1965
16,073,972	1,844	11.3	2.1	11.2	90,900	758	1964
16,025,136	1,815	11.1	2.0	11.2	100,400	803	1963
15,984,752	1,620	10.8	2.3	10.8	104,100	768	1962

CONSOLIDATED BALANCE SHEET**ASSETS**

	<i>December 31,</i>	
	<u>1971</u>	<u>1970</u>
CURRENT ASSETS:		
Cash	\$ 88,261,000	\$ 63,265,000
Amounts receivable under United States Government contracts	111,426,000	101,578,000
Refundable taxes on income — Note 2	2,256,000	4,472,000
Other accounts and notes receivable — Note 3	148,615,000	102,465,000
Inventories — Note 1	1,370,320,000	1,490,564,000
Prepaid expenses	6,409,000	6,904,000
Total Current Assets	1,727,287,000	1,769,248,000
 LONG-TERM NOTES RECEIVABLE — Note 3	 247,815,000	 258,913,000
 LEASED AIRCRAFT, at cost, less accumulated depreciation: 1971, \$86,634,000; 1970, \$83,466,000 — Note 3	 36,124,000	 57,289,000
 OTHER ASSETS AND DEFERRED CHARGES	 4,254,000	 4,187,000
 PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	26,563,000	26,903,000
Buildings	516,035,000	515,810,000
Machinery and equipment	532,516,000	554,705,000
Construction in progress	2,144,000	7,029,000
Less accumulated depreciation and amortization	(628,314,000)	(572,265,000)
	<u>448,944,000</u>	<u>532,182,000</u>
	<u><u>\$2,464,424,000</u></u>	<u><u>\$2,621,819,000</u></u>

See notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31,

	<u>1971</u>	<u>1970</u>
CURRENT LIABILITIES:		
Notes payable to banks — Note 3	\$ 251,695,000	\$ 114,950,000
Accounts payable	526,828,000	759,865,000
Salaries and wages, taxes and other accrued expenses	130,176,000	134,238,000
Current portion of long-term debt	123,797,000	103,577,000
Total Current Liabilities	<u>1,032,496,000</u>	<u>1,112,630,000</u>
 DEFERRED TAXES ON INCOME — Note 2	 17,000,000	 17,200,000
DEFERRED INVESTMENT CREDIT — Note 2	44,400,000	58,800,000
 LONG-TERM DEBT, less current portion — Note 3	 527,558,000	 623,756,000
 STOCKHOLDERS' EQUITY:		
Capital stock, par value \$5 a share — Authorized 30,000,000 shares Issued and outstanding at stated value: 21,683,102 shares — Note 5	447,040,000	447,040,000
Retained earnings — Note 3	395,930,000	362,393,000
	<u>842,970,000</u>	<u>809,433,000</u>
	<u>\$2,464,424,000</u>	<u>\$2,621,819,000</u>

CONSOLIDATED STATEMENT OF NET EARNINGS AND RETAINED EARNINGS

	<i>Year ended December 31,</i>	
	<u>1971</u>	<u>1970</u>
Sales	\$3,039,816,000	\$3,677,073,000
Other income	43,215,000	41,859,000
	<u>3,083,031,000</u>	<u>3,718,932,000</u>
Cost and expenses — Notes 1 and 4	3,014,356,000	3,632,924,000
Interest and debt expense	56,503,000	76,618,000
	<u>3,070,859,000</u>	<u>3,709,542,000</u>
EARNINGS BEFORE TAXES AND EXTRAORDINARY CREDIT	12,172,000	9,390,000
Federal taxes on income (tax credits) — Note 2	(10,258,000)	(12,700,000)
EARNINGS BEFORE EXTRAORDINARY CREDIT	22,430,000	22,090,000
Recovery of cost share resulting from SST cancellation, net of Federal income taxes of \$18,258,000	19,780,000	
NET EARNINGS	42,210,000	22,090,000
Retained earnings, January 1	362,393,000	348,976,000
Cash dividends paid — \$.40 per share	(8,673,000)	(8,673,000)
Retained earnings, December 31	<u>\$ 395,930,000</u>	<u>\$ 362,393,000</u>
Earnings per share—		
Before extraordinary credit	\$1.04	\$1.02
Extraordinary credit91	
Net earnings	<u>\$1.95</u>	<u>\$1.02</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31,

SOURCES OF FUNDS:

From operations—

Earnings before extraordinary credit	\$ 22,430,000	\$ 22,090,000
Recovery of cost share resulting from SST cancellation, net of taxes	19,780,000	
Net earnings	42,210,000	22,090,000
Depreciation—		
Plant and equipment	89,609,000	98,372,000
Leased aircraft	12,246,000	14,523,000
Less amortization of investment credit	(16,000,000)	(17,300,000)
	128,065,000	117,685,000
Decrease (increase) in aircraft financing—		
Long-term notes receivable	11,098,000	(31,359,000)
Leased aircraft	8,919,000	(911,000)
Increase (decrease) in deferred credits	1,400,000	(600,000)
	149,482,000	84,815,000

USES OF FUNDS:

Decreases in long-term debt	96,198,000	8,711,000
Additions to plant and equipment, net	6,370,000	21,337,000
Cash dividends	8,673,000	8,673,000
Other	68,000	(57,000)
	111,309,000	38,664,000

NET INCREASE IN WORKING CAPITAL \$ 38,173,000 \$ 46,151,000

CHANGES IN WORKING CAPITAL:

Increase (decrease) in current assets—		
Cash	\$ 24,996,000	\$ (17,940,000)
Receivables	53,782,000	6,724,000
Inventories	(120,244,000)	94,999,000
Prepaid expenses	(495,000)	(5,063,000)
	(41,961,000)	78,720,000

Decrease (increase) in current liabilities—

Notes payable to banks	(136,745,000)	33,303,000
Accounts payable	233,037,000	(23,715,000)
Salaries and wages, taxes and other accrued expenses	4,062,000	21,468,000
Current portion of long-term debt	(20,220,000)	(63,625,000)

NET INCREASE IN WORKING CAPITAL \$ 38,173,000 \$ 46,151,000

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—INVENTORIES:

Inventories at December 31 include the following:

	1971	1970
Work in process . . .	\$1,828,612,000	\$2,384,237,000
Commercial spare parts and general stock, at average cost, not in excess of realizable value	61,921,000	62,770,000
	<u>1,890,533,000</u>	<u>2,447,007,000</u>
Less advances and progress payments	520,213,000	956,443,000
	<u>\$1,370,320,000</u>	<u>\$1,490,564,000</u>

Work in process on Government fixed-price incentive type contracts is stated at the total of direct engineering, developmental, production and tooling costs and overhead applicable thereto, less the estimated average cost of deliveries based on the estimated total cost of the contracts. Work in process on straight fixed-price contracts is stated in the same manner, except that applicable research, developmental, administrative and other general expenses are charged directly to earnings as incurred. Basic engineering and planning costs applicable to commercial jet transport programs are also charged directly to earnings. The average cost of deliveries on commercial programs is based upon the total estimated program costs determined in the above manner. To the extent such costs are expected to exceed the total estimated program sales price, charges are made to current earnings in order to reduce work in process to estimated realizable value.

In accordance with industry practice, substantial amounts relating to programs having long production cycles are included in work in process, a portion of which is not expected to be realized within one year.

Note 2—FEDERAL INCOME TAXES:

The provision for Federal taxes on income (tax credits) is composed of:

	1971	1970
Taxes currently payable	\$ 8,500,000	\$ 9,000,000
Tax effect of timing differences	15,500,000	(4,400,000)
Amortization of investment tax credit	(16,000,000)	(17,300,000)
	<u>8,000,000</u>	<u>(12,700,000)</u>
Taxes applicable to extraordinary item . .	(18,258,000)	
	<u>\$(10,258,000)</u>	<u>\$(12,700,000)</u>

Investment tax credit is being deferred and amortized ratably over the lives of the applicable assets.

Deferred taxes on income (principally arising from installment sales of commercial aircraft) have been reduced at December 31, 1971 by \$10,000,000 of the deferred investment tax credit reportable in future years' income tax returns.

Income taxes have been settled with the Internal Revenue Service for all years through 1968. Adequate provision for income taxes is believed to have been made for the years 1969 through 1971.

Note 3—NOTES PAYABLE AND LONG-TERM DEBT:

Short-term notes payable aggregating \$251,695,000 are payable to a group of banks under agreements providing for lines of credit which currently aggregate \$414,000,000. The notes bear interest at 1/2% above the prime commercial bank rate. In addition, commitment fees of 1/2% are charged for the unused portion of the credit lines.

Long-term debt consists of the following:

	December 31,	
	1971	1970
Revolving Credit notes	\$161,975,000	\$209,000,000
Term Loan and Credit Agreement . .	274,881,000	285,923,000
6 3/8% notes payable . .	164,250,000	175,000,000
5% notes payable	33,500,000	36,250,000
5% Sinking Fund Debentures	13,614,000	16,672,000
Other notes	3,135,000	4,488,000
Less current maturities	(123,797,000)	(103,577,000)
	<u>\$527,558,000</u>	<u>\$623,756,000</u>

Under a Revolving Credit Agreement with a group of banks, the outstanding balance at December 31, 1971 is payable over the two-year period ending January 1, 1974. These notes bear interest at 1/4% above the prime rate. Borrowings under the agreement may be prepaid at any time without penalty.

Boeing Financial Corporation, a wholly-owned subsidiary, is a party to a Term Loan and Credit Agreement with a group of banks. An additional credit of \$108,000,000 is available under the agreement. The collateral for the balance outstanding at December 31, 1971 is limited to \$258,188,000 of notes receivable and \$34,263,000 of leased aircraft included in the consolidated balance sheet. Of the outstanding balance at December 31, 1971, \$153,306,000 is payable in quarterly installments of \$8,221,000 plus interest at 1/4%-1/2% above the prime rate. The remaining \$121,575,000 is payable in monthly installments of \$1,069,000, plus interest at 3/4% above the prime rate, through March 31, 1973, at which date the remaining balance becomes due.

The 6 3/8% notes, maturing in 1986, are payable to a group of institutional lenders. Required annual sinking fund payments are \$10,750,000.

The 5% notes, maturing in 1983, are payable to an insurance company in annual installments of \$2,750,000.

Sinking fund requirements under the 5% Sinking Fund Debentures, due in 1978, are \$2,700,000 annually. Debentures aggregating \$2,086,000 have been reacquired and may be applied against future sinking fund requirements.

The other notes bear interest at 6% to 8%, and are payable in installments over various periods through 1977.

The Company has complied with all of the restrictive covenants contained in the various debt agreements. Under agreements effective February 15, 1972, retained earnings totaling \$37,432,000 are free from dividend restrictions.

Aggregate maturities and sinking fund requirements on long-term debt for each of the next five years are as follows:

1972	\$123,797,000
1973	237,428,000
1974	70,287,000
1975	49,186,000
1976	35,411,000

Note 4—OPERATING CHARGES:

The following charges were incurred in the years ended December 31:

	<u>1971</u>	<u>1970</u>
Depreciation and amortization of plant and equipment (principally sum-of-the-years digits method)	\$89,609,000	\$98,372,000
Depreciation of leased aircraft (sum-of-the-years digits method)	12,246,000	14,523,000
Retirement plans	\$23,081,000	25,330,000

The Company has several retirement plans covering substantially all employees. The Company's policy is to accrue current pension costs.

Note 5—CAPITAL STOCK:

There were no changes in capital stock during the two years ended December 31, 1971. At December 31, 1971, options for 219,577 shares of the Company's stock, at prices ranging from \$14.50 to \$71.00 were outstanding, of which 115,002 shares were exercisable. During 1971, options for 1,000 shares were granted and options for 144,000 shares were canceled. Additional options for 483,100 shares may be granted under the present stock option plan.

Note 6—CONTINGENT LIABILITIES:

Substantially all of the Company's contracts with the Government are subject to renegotiation under the Renegotiation Act of 1951. Renegotiation Board proceedings for all years through 1968 have been concluded. The Company does not know and cannot predict what the Board's actions will be for 1969 and subsequent years. In view of this uncertainty, and the belief of the Company that no excessive profits were realized, no provision for renegotiation refund has been made for these years.

The Company is engaged in various legal proceedings which in some instances involve claims for substantial amounts. Most of these claims are covered by insurance, and the Company does not anticipate that the amounts, if any, which may be required to be paid by the Company will be material.

ACCOUNTANTS' REPORT

TOUCHE ROSS & CO.

1212 IBM BUILDING
SEATTLE, WASHINGTON 98101

February 28, 1972

Board of Directors
The Boeing Company
Seattle, Washington

We have examined the accompanying consolidated balance sheet of The Boeing Company and subsidiaries as of December 31, 1971 and 1970, and the related statements of net earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Boeing Company and subsidiaries at December 31, 1971 and 1970, the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Also, in our opinion, the action of the Board of Directors on February 28, 1972, in setting aside the sum of \$2,000,000 for the year 1971 under the Incentive Compensation Plan for officers and employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

Touche Ross & Co.

Certified Public Accountants

DIRECTORS AND OFFICERS

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*Vice Pres.-Engineering
747 Division
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*Denotes Director



■ Directors of The Boeing Company with 1970 Robert J. Collier trophy awarded for successful introduction of 747 into commercial service. Seated (left to right): L. P. Mickelwait, H. W. Haynes, W. M. Allen, T. A. Wilson, D. E. Skinner, E. C. Wells. Standing (left to right): C. H. Greenewalt, G. H. Weyerhaeuser, J. E. Prince, W. G. Reed, W. M. Batten. Not in picture: T. R. Wilcox



GENERAL COMPANY ORGANIZATION

The Boeing Company is composed of a headquarters organization, two product groups and fourteen divisions.

Corporate headquarters, the Field Operations and Support division and the Seattle Services division are located in Seattle, Washington.

The Aerospace Group's headquarters is based at Kent, Washington, as are its Strategic Systems, Saturn/Apollo/Skylab, Research and Engineering, Army Systems and Spacecraft divisions. Its Aeronautical and Information Systems and its Naval Systems divisions are located in Seattle.

The Commercial Airplane Group's headquarters and its 707/727/737 division are at Renton, Washington. Its 747 division is at Everett, Washington. Its Fabrication and Services division is at Auburn, Washington.

The Wichita division is located at Wichita, Kansas, and the Vertol division at Philadelphia, Pennsylvania.

The Company has eight wholly-owned subsidiaries: Boeing International Corporation, Boeing International Sales Corporation, Boeing Equipment Holding Company and Boeing Financial Corporation, all with principal offices in Seattle; Boeing Environmental Products and Boeing Housing Finance Corporation at Kent, Washington; Boeing Computer Services, Inc. having dual principal offices at Dover, New Jersey and Kent, Washington; and Boeing of Canada Ltd., with a division at Arnprior, Ontario, and another at Winnipeg, Manitoba.

GENERAL COUNSEL PERKINS, COIE, STONE, OLSEN & WILLIAMS

GENERAL AUDITORS TOUCHE ROSS & CO.

TRANSFER AGENT FIRST NATIONAL CITY BANK, NEW YORK

REGISTRAR BANKERS TRUST COMPANY, NEW YORK

THE **BOEING** COMPANY

GENERAL OFFICES — 7755 EAST MARGINAL WAY SOUTH — SEATTLE, WASHINGTON 98124



■ Air show attractions: First 747, B-52 in war paint and Navy's Blue Angels in flyby

■ The new and the old: Tucumcari "lands" in Copenhagen harbor during European tour

■ Mockup of car for automated personal rapid transit system at Morgantown, West Virginia



